

Appointment of External Auditors

Governance and Audit Committee 1 December 2021

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Portfolio Holder Cllr David Saunders, Portfolio Holder for Finance

Status For Recommendation

Classification: Unrestricted

Key Decision No

Executive Summary:

The external auditor for the audit of the Council's accounts for 2023-24 has to be appointed before the end of December 2022.

If the Council wishes to opt to join the national scheme, the Public Sector Audit Appointments (PSAA) needs to receive our formal acceptance of this invitation by Friday 11 March 2022. The relevant regulations require that the decision to accept the PSAAs invitation and to opt-in to the national scheme must be made by Full Council.

The Council used the PSAA framework for the last five year contract covering the 2018-23 period. It is expected that continuing with this approach will provide the most cost effective and transparent method of appointing our external auditors for the next five year contract.

Recommendation(s):

That the Governance and Audit Committee recommend to Council that invitation to opt in to the national scheme for auditor appointment is accepted.

Corporate Implications

Financial and Value for Money

As set out within the body of the report

Legal

Section 7 of The Audit and Accountability Act 2014 requires the Council to appoint its external auditors by 31 December for an appointment to start the following year and must re-appoint once every five years. Schedule 3(1) of the Act makes clear that appointment cannot be the function of Cabinet and must be made by a decision of Council. The PSAA is the "Appointing Person" under section 3 of the Local Audit (Appointing Person) Regulations 2015, which allows the Secretary of

State to designate a “person” to appoint auditors to audit the accounts of those Councils which have opted into the scheme.

Corporate

External audit is an annual independent examination designed to form an opinion on the state of the Council’s financial management and its published annual accounts.

The external auditors provide assurance to residents and councillors that the Council’s finances are soundly managed and the annual accounts present a true and fair view of the Council’s income and expenditure assets. The auditors are required to satisfy themselves that the Council has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources. This is known as the Value for Money (VFM) conclusion.

Equality Act 2010 & Public Sector Equality Duty

Members are reminded of the requirement, under the Public Sector Equality Duty (section 149 of the Equality Act 2010) to have due regard to the aims of the Duty at the time the decision is taken. The aims of the Duty are: (i) eliminate unlawful discrimination, harassment, victimisation and other conduct prohibited by the Act, (ii) advance equality of opportunity between people who share a protected characteristic and people who do not share it, and (iii) foster good relations between people who share a protected characteristic and people who do not share it.

Protected characteristics: age, sex, disability, race, sexual orientation, gender reassignment, religion or belief and pregnancy & maternity. Only aim (i) of the Duty applies to Marriage & civil partnership.

There are no equality implications that directly arise from this report.

CORPORATE PRIORITIES

This report relates to the following corporate priorities: -

- *Growth*
- *Environment*
- *Communities*

1. Introduction

- 1.1. The external auditor for the audit of the Council’s accounts for 2023-24 has to be appointed before the end of December 2022. That may seem a long way away but, as the Council has a choice about how to make that appointment, our decision-making process needs to start now to ensure this deadline can be met.
- 1.2. The purpose of this report is to set out for the Committee’s consideration and comment on the options available to the Council for the appointment of the external

auditor and to make a recommendation to Council on how to undertake the appointment.

2. Role of The Auditor

- 2.1. External audit is an annual independent examination designed to form an opinion on the state of the Council's financial management and its published annual accounts.
- 2.2. The external auditors provide assurance to residents and councillors that the Council's finances are soundly managed and the annual accounts present a true and fair view of the District Council's income and expenditure assets. The auditors are required to satisfy themselves that the Council has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources. This is known as the Value for Money (VFM) conclusion.
- 2.3. All local authorities are legally obliged to submit their accounts for audit every year.

3. Current Arrangements

- 3.1. Prior to 2015 the majority of local authority audits were undertaken by the Audit Commission (AC), a government body that was also responsible for the audit of fire and rescue and health bodies in England and Wales. However, the Local Audit and Accountability Act 2014 led to the abolition of the AC, its functions being transferred to voluntary, not-for-profit or private bodies.
- 3.2. Under the powers transferred by the 2014 Act an independent company Public Sector Audit Appointments (PSAA) was created by the Local Government Association (LGA). On a transitional basis the PSAA was responsible from 2015 until 2018 for appointing local authority auditors and managing their contracts.
- 3.3. From the audit of the 2018-19 accounts onwards PSAA appoints an auditor for authorities that have opted into its national scheme. Appointments are made for the duration of a five-year appointing period. The current appointing period covers the audits of the accounts for 2018-19 to 2022-23.
- 3.4. Thanet District Council opted into the PSAA appointment process for the 2018-23 contract period and Grant Thornton (GT) were appointed as the council's current external auditors.
- 3.5. Alternatively, authorities could decide not to opt into the PSAA scheme and appoint their auditors independently. Only nine authorities elected to appoint their own auditors.
- 3.6. This process now needs to be revisited for the next five year contract period, which starts in 2023-24. On 22 September 2021 the PSAA wrote to the Chief Executive inviting the Council to opt into the national scheme for auditor appointments from April 2023. If the Council wishes to opt to join the national scheme, the PSAA needs to receive our formal acceptance of this invitation by Friday 11 March 2022. The

relevant regulations require that the decision to accept the PSAAs invitation and to opt in to the national scheme must be made by Full Council.

- 3.7. As part of the national scheme, the PSAA also set the framework for fees, this is referred to as 'scale of fees'. In-line with this process, GT's proposed fee for the 2021-22 audit is £81,550, any variation to this fee has to be approved by the PSAA.

4. The Audit Market

- 4.1. The way external audit has operated over the last couple of years has been extremely disappointing. A lack of capacity in the audit market has been exacerbated by increased requirements placed on external auditors by the audit regulator.

- 4.2. There is also a limited number of firms in the market and too few qualified auditors employed by those firms. There is a [local auditor register](#) maintained by the Institute of Chartered Accountants in England and Wales (ICAEW), which lists the audit firms who have met the eligibility criteria to undertake the audit of local authority accounts. Currently this is limited to the following firms:

- BDO
- Cardens Accountants
- Deloitte
- Ernst & Young
- Grant Thornton
- KPMG
- Mazars
- Pricewaterhouse Coopers
- Azets

- 4.3. This has led to a situation where many audits have been delayed and dozens of audit opinions remain outstanding from 2019-20 and 2020-21. Auditors have also been asking for additional fees to pay for extra work.

5. Options

- 5.1. There are three ways for a principal local government or police body to appoint its auditor for the five financial years from 2023/24, namely:

- undertake an individual auditor procurement and appointment exercise;
- undertake a joint audit procurement and appointing exercise with other bodies, those in the same locality for example; or
- join PSAA's sector led national scheme

- 5.2. All of the above options require a local auditor to be appointed not later than 31 December in the financial year preceding the financial year of the accounts to be audited. So for the audit of the accounts of the 2023-24 financial year, there must be a local auditor appointed by 31 December 2022.

Option 1) Undertake an individual auditor procurement and appointment exercise

- 5.3. As an alternative to opting into the national scheme the Council could decide to run its own procurement and appointment process.
- 5.4. The legislation requires an independent auditor panel to be established to oversee this process. The Audit Panel must have an independent chair to oversee the procurement and running of the contract.

Advantages	Disadvantages
Local oversight and selection	<p>Expected to be more expensive through loss of economies and scale.</p> <p>Our geographical position is also likely to mean we are a less attractive contract to bid for compared to those in urban centres.</p> <p>Statutory recommendations raised by the external auditors may also make us a more expensive proposition to any potential bidders.</p>
<p>Procurement can be tailored to balance the priority of price and quality.</p> <p>However, the auditors are required to be independent and are bound by the Codes and need to deliver them in line with the regulator's expectations or face action under the regulatory framework</p>	<p>As the client in the contract, a council has little influence over what it is procuring. The nature and scope of the audit is determined by codes of practice and guidance and the regulation of the audit market is undertaken by a third party, currently the Financial Reporting Council.</p> <p>Furthermore, due to the limited capacity in the audit market it may not be possible to deliver enhanced audit services in the current market climate.</p>
<p>Not limited to the scale of fees set by the PSAA, and could invest more in audits. However, given limited resources this is unlikely to be a priority for the authority.</p>	<p>There is a significant degree of shared approach to accounting treatment of subjective items within the accounts across Kent - the benefit of this could be lost if all have different auditors</p>
	<p>Resources required to establish and administer an Independent Auditor Panel.</p>
	<p>Appointing own auditors could lead to increased risk of actual or perceived conflict of interest, through the possible use of consultancy or other services</p>

- 5.5. In summary, this option will be more resource intensive to administer and will also probably lead to an increase in costs for the authority. There is the potential for more control over the contract under this option, but it is the view of the section 151 officer that this is a benefit that is not worth the additional costs that are likely to be incurred given our financial position.

Option 2) Undertake a joint audit procurement and appointing exercise with other councils

- 5.6. Informal discussions have been held at a county level between the section 151 officers to explore the potential for a Kent-wide appointment. However, the discussions remain at a relatively infancy stage and appetite for a county wide appointment is limited.
- 5.7. Many of the advantages to this scheme are comparable to the individual appointment process, however there may be a need for compromise if there are differing views on the contract specification of audit service priorities.
- 5.8. There may be some cost savings compared to option 1, however again this route is expected to be more expensive than utilising the PSAA national framework.

OPTION 3) Opt in to the National Scheme

- 5.9. Acceptance of the invitation from the PSAA to opt in to the national appointment of external auditors.

Advantages	Disadvantages
Expected to provide the cheapests option through economies of scale.	Unable to tailor contracts to individual audit service priorities. However, the auditors are required to be independent and are bound by the Codes and need to deliver to them in line with the regulator’s expectations or face action under the regulatory framework
Collective efficiency savings for the sector through undertaking one major procurement as opposed to a multiplicity of smaller procurements;	Reliant on the PSAA to set the scale of fees and agree to any variations. Thus removes the scope for negotiation with the auditor on fees.
Transparent and independent auditor appointment via a third party;	
Avoids the necessity for local bodies to establish an auditor panel and undertake an	

auditor procurement, enabling time and resources to be deployed on other pressing priorities;	
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- 5.10. In summary, this should provide the cheapest and most transparent option.

6. Conclusion and Recommendations

- 6.1. It is recommended that the Council opts-in to the PSAA framework as this is likely to provide the cheapest and most transparent option.
- 6.2. Even if the council were in a financial position where it could invest more money in its external audits and prioritise quality over price under an individual procurement exercise, the limited capacity in the audit market means it may still not be able to deliver this.
- 6.3. However, given our financial position a PSAA led procurement is expected to provide better value for money for the council.

7. Next Steps

- 7.1. Subject to the recommendations of the G&A Committee, the matter will be considered by Council for decision making at its meeting on 9 December 2021.

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Corporate Consultation

Finance: *N/A*

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